


6-11

The Growth of Supermarkets and its Implications for Smallholders in Uganda

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Executive Summary

The growth of supermarkets is a phenomenon that characterizes many developing countries. The growth of supermarkets in Uganda can be attributed to the country's favorable investment climate coupled with the increase in supermarket demand factors such as the rise in urbanization, the growth of the middle class, and the increase in the number of employed women. As in other developing countries, supermarkets in Uganda are patronized mostly by younger and better-educated consumers with smaller families.

Changes in food preferences and eating habits among urban consumers can partially explain the increasing patronage of supermarkets in Uganda. Moreover, supermarket customers regard these stores as offering higher food quality, safety, variety, and customer service than open or roadside markets. Most supermarket shoppers, however, also continue to patronize traditional food retail outlets, such as open markets, which still dominate agri-food retailing in Uganda.

At this initial stage of supermarket growth, early participation by local farmers in the new agri-food marketing system could promote commercialization of agriculture in Uganda. There has been a public outcry, however, that supermarkets are marginalizing local farmers by importing food products that could be procured locally. In response to this supermarket procurement behavior, Ugandan policy makers have twice proposed the formulation of supermarket trade policies to regulate the importation of specific food products.

Although it is true that Ugandan supermarkets import most of their food products, some foods are locally sourced depending on their availability, quality, and safety. A few Ugandan smallholder farmers supply supermarkets with fruits, vegetables, and staple foodstuffs. These farmers have found supermarkets to be more reliable and preferred markets than traditional food buyers. Yet these farmers face a number of constraints in supplying supermarkets because of the latter's stringent supply terms.

Your assignment is to advise the government of Uganda on appropriate policies to help ensure

that local smallholder farmers benefit from supermarket development in Uganda.

Background

Global Supermarket Expansion

The rapid rise of supermarkets in Asia and Latin America has been attributed to both supply and demand factors. On the demand side, rapid urbanization, the rise of per capita income and the consequent growth of the middle class, increasing employment of women, growing use of credit cards, demographic changes leading to increasing proportions of young people, and ownership of refrigerators and cars, among other factors, have driven growth (Chen, Sheperd, and Silva 2005; Reardon et al. 2003). In addition, the expansion of multinational supermarkets from developed countries such as Wal-Mart (United States), Tesco (Britain), and Carrefour (France) to developing countries has resulted from liberal global trade policies, market saturation in the domestic markets, and globalization of markets (Reardon et al. 2003).

There has been a rapid surge in the market share of supermarkets in agri-food retailing in developing countries. Generally, supermarkets in developing countries first enter into the marketing of processed and staple foods and then expand into fresh foods, notably fruits and vegetables. Reardon, Timmer, and Berdegue (2004) have noted that the diffusion rates of supermarkets have spread across regions in four waves. The first wave started small in the early to mid-1990s. It saw the average share of supermarkets in agri-food retailing go from 10–20 percent to 50–60 percent by the early 2000s. This wave occurred in Latin America (Argentina and Brazil), East Asia (excluding China and Japan), north-central Europe, and South Africa. In the second-wave countries (Mexico, Central America, south-central Europe, and much of Southeast Asia), the share went from 5–10 percent in 1990 to 30–50 percent by the early 2000s. In the third-wave countries (Bolivia, China, India, Kenya, Nicaragua, Peru, Russia, Vietnam, Zambia, and Zimbabwe), the supermarket revolution takeoff started in the

late 1990s, reaching about 10–20 percent of national food retailing by 2003. The fourth wave has just started in Angola, Mozambique, Tanzania, and Uganda and stems partly from the flow of retail foreign direct investment from South Africa. South Asia and West Africa have also begun to feel the effects of the fourth wave.

The rise of supermarkets in developing countries has brought both opportunities and challenges for smallholder farmers, with implications for agricultural diversification and rural development programs and policies. In Kenya, for example, the volume of supermarket in-country purchases is about half that of exported produce (Neven and Reardon 2004). This gap represents a potential opportunity for smallholder farmers in Kenya, the major producers of horticultural products. Yet supermarket sales have excluded those smallholder farmers who cannot cope with stringent requirements for quality, quantity, consistency, and safety (Neven and Reardon 2004; Balsevich et al. 2003; Weatherspoon and Reardon 2003; Reardon and Berdegue 2002).

The Supermarket Revolution in Uganda

In Uganda, the growth of supermarkets can be attributed to the country's favorable investment climate coupled with the growth of supermarket demand factors such as rising urbanization, an increasing middle class, and a growing population of employed women. Uganda's economy has maintained an average annual growth rate of 5.5 percent since 2000. Moreover, in the 1990s the economy grew at an average rate of 6.5 percent. Per capita gross domestic product (GDP) has grown over time and stood at about US\$380 in 2006/07 despite rapid population growth of about 3.4 percent a year (MFPED 2008). At the same time, urbanization has been on the increase from 13 percent in 1999/2000 to 15 percent in 2005/06 (UBOS 2006).

Foreign direct investment inflows have increased under the liberal economic policies adopted in the early 1990s. Regional or foreign supermarkets that have opened chain stores in Uganda are Metro Cash and Carry,¹ Shoprite, Game, Uchumi, and Nakumatt. Metro Cash and Carry, Shoprite, and Game are South African

supermarket chains, and Uchumi and Nakumatt are supermarket chains from Kenya. Metro Cash and Carry was the first supermarket chain to enter Uganda in the 1990s. Shoprite moved into Uganda in 2001 and opened a second supermarket outlet at Lugogo Mall in 2004. Game set up its outlet at Lugogo Mall in 2004. Uchumi opened its supermarket chain at Garden City Mall in 2002. The most recent arrival is Nakumatt, which opened in Oasis Mall in 2009.

As these regional chains have entered and expanded, the share of supermarkets in agri-food retailing has increased in urban centers, especially in the capital city, Kampala. In addition, Kampala is the site of many local supermarkets. Among the local supermarkets that have sprung up in downtown and suburban areas of Kampala are Capital, JohnRich, Deep Save, Embassy, Pay Less, Good Price, Half Price, Cheapex, Quality, and Kenjoy. In other urban centers, such as Jinja, Mbale, Mbarara, Lira, and Masaka, small local supermarkets are also springing up in every corner.

It is mostly younger and more-educated consumers who patronize supermarkets in Uganda. Supermarket consumers tend to have medium to high incomes and own assets such as refrigerators, cars, and houses that facilitate the purchase of food from supermarkets. This profile of supermarket consumers in Uganda is typical of supermarket consumers in other developing countries (Chen, Sheperd, and Silva 2005; Reardon et al. 2003). Furthermore, supermarket consumers rank food quality, safety, variety, and customer service in supermarkets as higher than in other food retail outlets such as open and roadside markets (Figure 1).

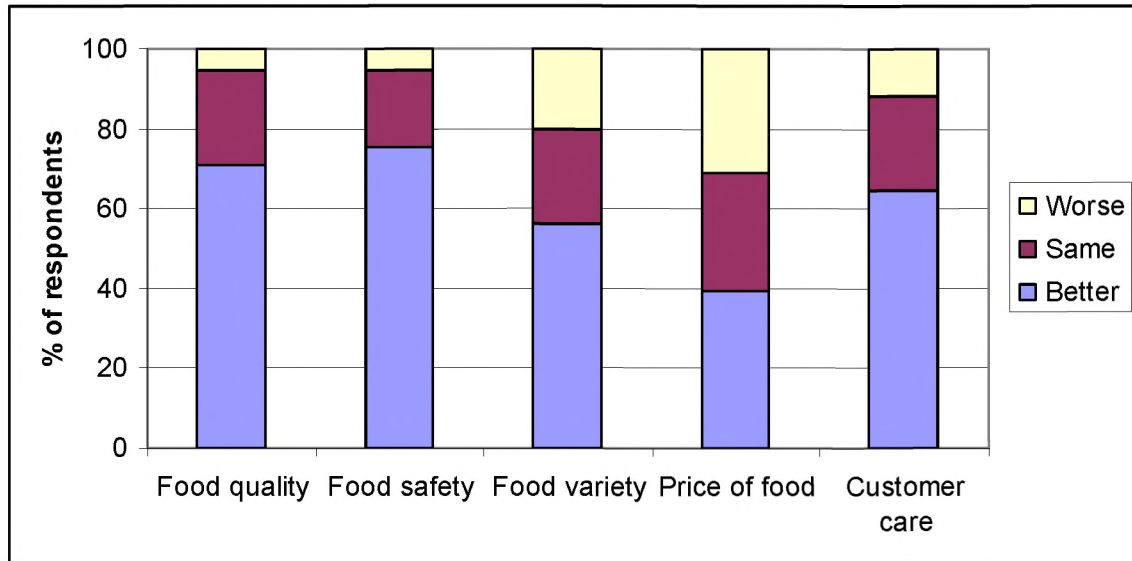
Processed foods are the most common type of food products offered by Ugandan supermarkets, followed by staple foods. Fresh foods are the least common product in supermarkets (Figure 2). Regional supermarkets, however, carry more fresh foods than local supermarkets. In regional supermarkets, fresh foods account for at least one-quarter of the total quantity of food products handled, whereas in local supermarkets the fresh food share is less than 5 percent. In addition, regional supermarkets and the more-developed local supermarkets operating in Kampala carry a wider variety of fresh fruits and vegetables than local supermarkets in other urban centers, which offer mostly apples and sweet

¹ Metro Cash and Carry and its local distribution network (Kwiksave and Lucky Seven) closed down in 2007 because of debt problems.

oranges. The current product assortment of supermarkets in Uganda is likely influenced by consumer demand, the early stage of market development, and competition from alternative

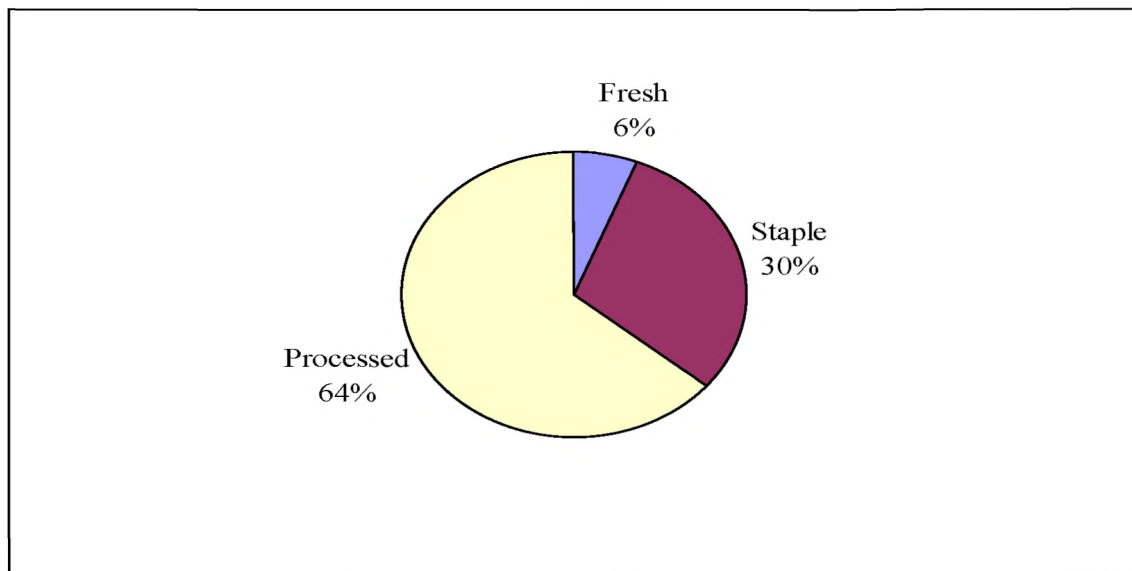
food retail outlets. For instance, open or wet markets are still a dominant player in fresh food marketing in Uganda.

Figure 1: Consumer comparison of attributes of supermarket to other retail outlets, 2006



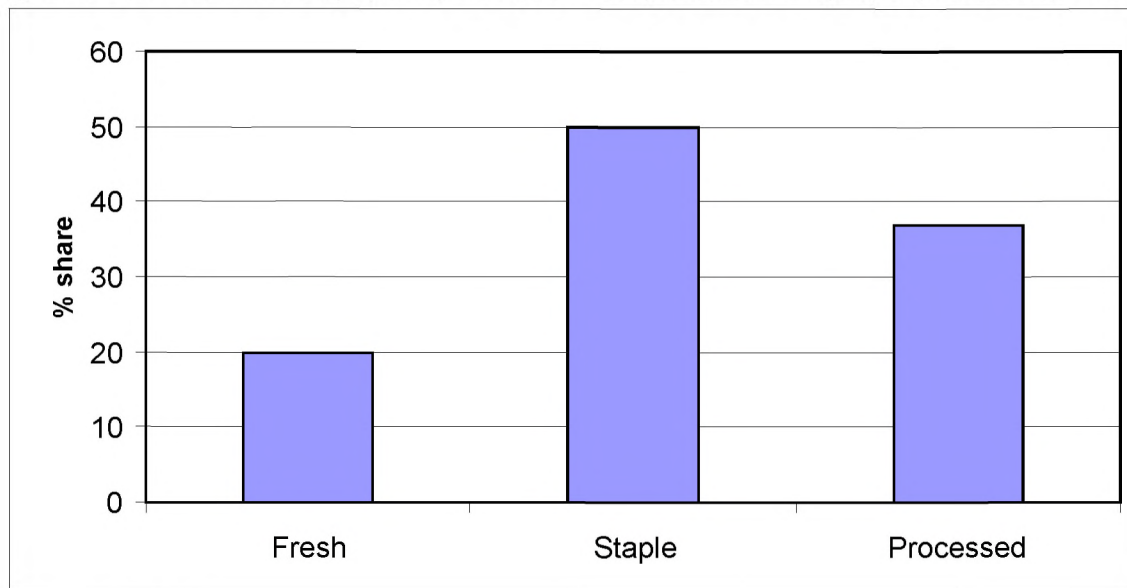
Source: Elepu 2006.

Figure 2: Food product mix in Ugandan supermarkets, 2006



Source: Elepu 2006.

Figure 3: Share of fresh, staple, and processed foods procured locally by supermarkets, 2006



Source: Elepu 2006.

Generally, supermarkets in Uganda source most food products from global suppliers (Figure 3). Most of the imported food products in supermarkets are from Kenya, South Africa, and the United States. Other food products are sourced from Denmark, England, India, Israel, New Zealand, Pakistan, Tanzania, and Thailand. The imported food products are carrots, cauliflower, herbs, apples, sweet oranges, pre-cut Asian vegetables, and most processed foods (Elepu 2006; Neven and Reardon 2004; Aliguma and Nyoro 2004). Supermarkets have defended their global food-sourcing strategy as being driven by a lack of high-quality local foods. Some food products such as breakfast cereals and Asian vegetables are not currently produced in Uganda. Other food products, like apples, are produced in Uganda but only on a limited scale. In addition, regional supermarkets (Shoprite and Uchumi) have revealed that they import food products because they are skeptical of the safety of local foods given that many local farmers use unknown types and quantities of chemicals to produce food crops (Ogwang 2004).

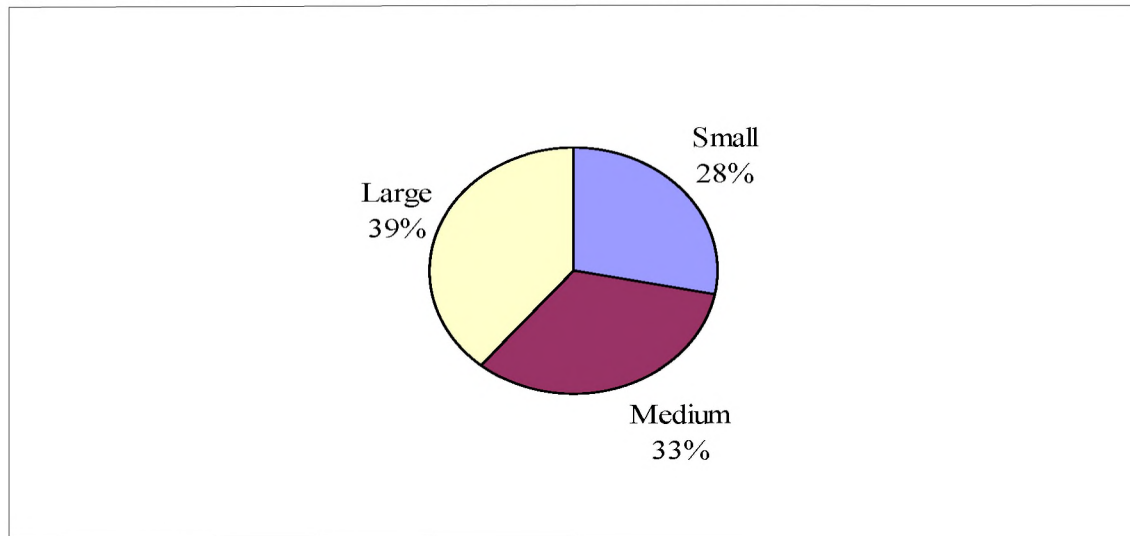
Supermarkets are concerned with food products' quality, safety, and consistency (Neven and Reardon 2004; Balsevich et al. 2003; Weatherspoon and Reardon 2003; Reardon and Berdegúe 2002). To ensure these characteristics, supermarkets in Uganda impose stringent requirements on their suppliers. For instance,

they require that food quality and safety regulatory bodies such as the Uganda National Bureau of Standards approve food products, especially processed foods. Other requirements include prompt delivery, provision of samples where necessary, supply of goods on demand, provision of an invoice, acceptance of terms of payment such as supplying on credit, the ability to replace damaged goods, and provision of bar coding. Some supermarkets also require their food suppliers, especially processors, to be compliant with the value-added tax and therefore to be registered with Uganda Revenue Authority.

Supermarkets in Uganda report that global suppliers are much better than local suppliers at meeting these requirements. Global food suppliers deliver quality and consistency and offer a wide range of value-added and branded products with good packaging. Global suppliers are reported not to deliver on time, however, because of the length and bureaucratic management of global food supply chains and cross-border impediments. Another potential competitive advantage of local over global food suppliers is that local food suppliers offer food products on credit whereas global suppliers deal on a cash basis.

In pursuit of suppliers that can fulfill their procurement requirements, supermarkets in Uganda deal with all types of food suppliers. As shown in

Figure 4: Proportions of supermarket suppliers by category, 2006



Source: Elepu 2006.

Figure 4, these supermarket food suppliers fall into three broad categories according to size: large (39 percent), medium (33 percent), and small (28 percent). Local food suppliers (food processors and smallholder farmers) are generally smaller in size than global food suppliers. Moreover, local food suppliers, especially smallholder farmers, face a number of constraints in supplying supermarkets. These constraints include stringent contract terms, high transportation costs, lack of storage facilities, unreliable weather, delays in payments, high production costs, and crop pests and diseases.

The supermarket contract terms deemed stringent by smallholder farmers include high quality standards and strict delivery schedules. High quality standards required by supermarkets often lead to rejection of supplied food products or deduction of some weight and hence mean that smallholder farmers receive lower revenues than they expect. Moreover, if food products are not purchased by consumers, some supermarkets ask their respective supplier farmers to recall them. At the same time, smallholder farmers find it difficult to follow strict delivery schedules owing to the seasonality of production and reliance on rainfed agriculture.

In spite of the problems associated with the new markets, a few smallholder farmers have since 2001 supplied supermarkets with fruits and

vegetables and some staple foodstuffs. The smallholder farmers currently supplying supermarkets tend to be elite, well-informed, and innovative entrepreneurial farmers. After conducting a market search, the participating farmers in most cases approached supermarket procurement managers for slotting space. In exceptional cases they have opened unique farms or farm enterprises in response to supermarket demands, as in the case of suppliers of mushrooms and apples.

Policy Issues

Linking smallholder farmers to supermarkets is a key policy issue. Since the growth of supermarkets in Uganda has just started, early participation by local farmers, who are mostly smallholder farmers, in the new agri-food marketing system, could trigger the evolution of value chains for many agricultural products, especially nontraditional cash crops. Such an evolution would in turn lead to the commercialization of agriculture, consistent with the main objective of the Ugandan government's Plan for Modernization of Agriculture (PMA), launched in 2000 (MAAIF 2000). The PMA is part and parcel of a broad national poverty reduction strategy known as the Poverty Eradication Action Plan (PEAP), formed in 1997. The PEAP aims at wiping out

absolute poverty in Uganda, currently at around 31 percent, by 2017 (MFPED 2004; UBOS 2006).

Stakeholders

Stakeholders in supermarket development in Uganda include policy makers, local farmers, local agribusinesses, supermarkets, traditional markets, and consumers. Each of these stakeholders (including smallholder farmers themselves) has a contribution to make to ensure that smallholder farmers are included in the supermarket revolution and are not crowded out by foreign competition.

Policy Makers

Policy makers in Uganda are concerned about supermarket food procurement behavior, particularly supermarkets' current strategy of sourcing food predominantly from global rather than local suppliers. Policy makers have called for a ban on importation of specific food products by supermarkets (Lule 2003) and for a policy forcing supermarkets to procure 30 percent of food products locally (Maseruka 2004). With a liberalized market economy already in place in Uganda, however, policy makers should accept the development of supermarkets and identify ways of supporting local farmers to meet the needs of modern supply chains as well as ways of helping traditional markets compete with supermarkets.

Smallholder Farmers

Agriculture is still the main economic activity of the rural population, which constitutes about 85 percent of Uganda's total population. The proportion of the total population employed in agriculture was about 73 percent in 2005/06. A majority of farmers in Uganda are smallholder farmers with average land holdings of two to three hectares. They are involved in subsistence production and at times produce cash crops such as coffee and cotton. Because of volatile world market prices for traditional export crops, farmers have resorted to selling surplus food crops to meet their cash needs. Access to urban markets is important because they are prime markets for farmers' produce.

Agribusiness Firms

The agribusiness sector in Uganda is composed of both local and global firms. Local agribusiness firms, however, are still in their infancy. They are smaller and less-developed than global firms. Consequently, compared with global or foreign-owned firms, local agribusinesses find it more difficult to penetrate new markets with their products. Some global or foreign-owned agribusiness firms procure raw materials globally to the exclusion of local farmers.

Supermarkets

Supermarkets are new to Uganda and face huge growth opportunities because of the positive economic and sociodemographic trends in the food retail industry. The public interprets their procurement behavior, however, as a deliberate attempt to marginalize local suppliers. To sustain growth, supermarkets, especially regional supermarkets, need to assume greater social responsibility and step up their efforts to source food products from local farmers and agribusiness firms.

Traditional Markets

Traditional markets are still the major retail outlets for food in Uganda, largely because they offer food at lower prices than supermarkets. Because of the poor organization of traditional markets, especially open markets, however, supermarkets will continue to attract consumers concerned with food quality and safety. As consumer incomes rise, the patronage of supermarkets will increase. Thus, unless traditional markets improve their food services, their role in food retailing is bound to diminish with time and smallholders supplying them will fall out of the marketplace.

Consumers

Supermarket consumers can support smallholder farmers by purchasing local food products. At the moment, supermarkets seem to be serving a particular segment of food consumers—those who prefer processed foods and are not price-sensitive, such as foreign visitors and expatriates, and internationally exposed and trendy urban elites. Some consumers (11 percent) seem to regard imported foods as exotic compared with local foods (Elepu 2006). Consumer bias toward

imported foods might harm the local economy if it directly drives supermarket food procurement behavior.

Policy Options

Stakeholders face a number of policy options to ensure that local smallholder farmers are included in the supermarket revolution.

Development of Farmer Institutions

Farmer institutions (such as farmer groups or cooperatives) facilitate collective production and marketing of produce demanded by supermarkets. By producing collectively, farmers can continuously supply food products as required by supermarkets. In addition, organized farmers gain an improved bargaining position in relation to supermarkets. Farmer institutions in Uganda are usually characterized, however, by poor organizational, entrepreneurial, and group dynamics skills. Hence, ancillary capacity-building programs are needed.

Training of Farmers on Food Quality and Safety Standards

Farmer training on compliance issues regarding food quality and safety standards would help them meet supply conditions set up by supermarkets. Moreover, this training is likely to have spillover effects, raising the quality and safety of food in traditional agri-food retail outlets served by the same farmers. Farmers can also potentially gain access to global markets if they are trained on sanitary and phytosanitary standards.

Value Addition of Food and Agricultural Products

Both primary and secondary processing are crucial for the production of value-added food products demanded by supermarket consumers. Farmers need to engage in primary processing in order to add value to their agricultural produce and demand a higher price. It may be possible to promote primary processing by helping farmers or farmer groups acquire equipment like simple

milk-cooling facilities, juice extractors, and groundnut paste makers. Secondary agro-processing can be boosted through the provision and sustenance of a conducive investment climate in Uganda.

Vertical Coordination between Farmers and Agribusinesses

The formation of farm-agribusiness linkages helps smallholder farmers market their produce. Supermarkets can enter into direct contractual agreements with smallholder farmers. Contract farming schemes can also be established to link smallholder farmers to agroprocessors that supply supermarkets. Currently, however, most contracts in Uganda tend to be informal (Elepu and Nalukenge 2007; Wietgratz, Nyabuntu, and Omagor 2007). For proper functioning of contracts, sufficient contractual laws need to be put in place to govern forward production and marketing contracts between agribusinesses and farmers. Contract-enforcing institutions also need to be established and strengthened to protect both parties to contracts from any extra-contractual problems.

Upgrading of Traditional Agri-food Marketing Systems

Upgrading traditional agri-food marketing systems enables them to favorably compete with supermarkets. Traditional agri-food marketing systems in Uganda can be upgraded through better organization and establishment of modern infrastructure, such as cold chains, water and sanitation systems, and parking lots. Such policy interventions have been instituted in East and Southeast Asia (China, Hong Kong, India, Pakistan, the Philippines, and Singapore) and in Mexico (Reardon and Gulati 2008).

Assignment

Your assignment is to advise the government of Uganda on appropriate policies to help ensure that local smallholder farmers benefit from supermarket development in Uganda.

Additional Reading

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